

REPORT OF THE AUDITOR-GENERAL TO THE GAUTENG PROVINCIAL LEGISLATURE AND THE COUNCIL OF NOKENG TSA TAEMANE LOCAL MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of Nokeng Tsa Taemane Local Municipality, which comprise the statement of financial position as at 30 June 2011, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, as set out on pages xx to xx.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No.56 of 2003) (MFMA) and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and General Notice 1111 of 2010 issued in Government Gazette 33872 of 15 December 2010. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for qualified opinion

Cash and cash equivalents

7. The entity could not provide sufficient appropriate audit evidence to support reconciling items totalling R3 301 823 between the overdrawn cash and cash equivalents balance stated in the cash book at R379 300 and the cash at banks amount stated in the general ledger at R2 922 393. Furthermore, the cash and cash equivalents balance stated in the cash book does not agree to the amount confirmed by the financial institutions. The entity's records did not permit the application of alternative audit procedures regarding cash and cash equivalents. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the completeness, valuation and allocation of and rights pertaining to cash and cash equivalents.

Qualified opinion

8. In my opinion, except for the effects of the matter described in the Basis for qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Nokeng Tsa Taemane Local Municipality as at 30 June 2011, and its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the MFMA.

Emphasis of matters

9. I draw attention to the matters below. My opinion is not modified in respect of these matters:

Significant uncertainties

10. With reference to note 32 to the financial statements, the municipality is involved as a defendant in various claims and litigations with service providers and other parties. The outcome of these lawsuits cannot be determined at present and no provision for any liability that may result has been made in the financial statements.

Restatement of corresponding figures

11. With reference to note 29 to the financial statements, the corresponding figures for 30 June 2010 have been restated as a result of an error discovered during the 2010-11 financial year in the financial statements of Nokeng Tsa Taemane Local Municipality at, and for the year ended 30 June 2010.

Material losses

12. With reference to note 31. 10 to the financial statements, material water loss of 1 162 164 kilolitres with a value of R5 314 143 and material electricity loss of 4 737 892 with a value of R2 494 601 were incurred.
13. With reference to note 12 to the financial statements, material losses to the amount of R63 244 905 were incurred as a result of a write-off of irrecoverable trade debtors.

Material impairments

14. With reference to note 12 to the financial statements, material impairments to the amount of R34 714 586 were incurred as the recoverability of these amounts is doubtful.

Going concern

15. With reference to note 31.8 to the financial statements, The Member of Executive Committee responsible for Local Government and Housing in the province issued a section 12 notice after the Municipal Demarcation Board had re-determined the municipal borders. The section 12 notice effectively disestablishes the municipality and incorporates the municipality under a newly established City of Tshwane Metropolitan Council effective from the local government election held 18 May 2011. In terms of notice 1205 of 2010 the financial, operational and administrative affairs of the municipality will remain in force from the date of disestablishment until the 30 June 2011. The municipality in its current form therefore ceases to exist from 30 June 2011.

Additional matters

16. I draw attention to the matter below. My opinion is not modified in respect of this matter:

Unaudited supplementary schedules

17. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

18. In accordance with the PAA and in terms of *General Notice 1111 of 2010, issued in Government Gazette 33872 of 15 December 2010*, I include below my findings on the annual performance report as set out on pages xx to xx and material non-compliance with laws and regulations applicable to the municipality.

Predetermined objectives

Usefulness of information

19. The reported performance information was deficient in respect of the following criteria:
- Consistency: The reported objectives, indicators and targets are not consistent with the approved integrated development plan.
 - Measurability: The indicators are not well defined or verifiable, and targets are not specific, or measurable, or time bound.
20. The following audit findings relate to the above criteria:
- **Reported indicators and targets are not consistent when compared with the planned indicators and targets**

Reported performance against predetermined indicators and targets is not consistent with the approved strategic and integrated development plan.

- **Planned and reported targets are not specific**

For the selected objectives, 37% of the planned and reported targets were not specific in clearly identifying the nature and the required level of performance.

- **Planned and reported indicators are not well defined**

For the selected objectives, 37% of the planned and reported indicators were not clear, as unambiguous data definitions were not available to allow for data to be collected consistently.

- **Planned and reported indicators are not verifiable**

For the selected objectives valid performance management processes and systems that produce actual performance against the planned indicators do not exist for 37% of the indicators.

Reliability of information

21. The reported performance information was deficient in respect of the following criteria:

- **Validity:** The reported performance did not occur and does not pertain to the entity.
- **Accuracy:** The amounts, numbers and other data relating to reported actual performance have not been recorded and reported appropriately.
- **Completeness:** All actual results and events that should have been recorded have not been included in the reported performance information.

22. The following audit findings relate to the above criteria:

- **The validity, accuracy and completeness of reported performance against targets could not be confirmed as no supporting source information was provided**

For selected objectives, the validity, accuracy and completeness of 37% of the reported targets could not be established as sufficient appropriate evidence could not be provided.

Compliance with laws and regulations

Strategic planning and performance management

23. The municipality did not implement a framework that describes and represents how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted, organised and managed, including determining the roles of the different role players as required by section 38, 39, 40 and 41 of

the MSA read with regulations 7 and 8 of the Municipal Planning and Performance Management Regulations, 2001.

Annual financial statements, performance and annual reports

24. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 (1) of the MFMA. Material misstatements of current assets, current liabilities, employee cost and disclosure of commitments identified by the auditors were subsequently corrected, but the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.

Audit committee

25. Although an audit committee function was in place, the requirements of section 166 of the MFMA were not complied with, in that:
- the audit committee did not meet at least four times a year;
 - the audit committee did not consist of at least three persons with appropriate experience;
 - the audit committee did not fulfil its advisory role to the municipal council, accounting officer, municipality's staff and management for the current financial year;
 - the audit committee did not review the internal audit reports including finding and recommendations;
 - the audit committee did not advise the municipality or follow up on the internal control deficiencies raised in the prior year management report;
 - the audit committee did not review the effectiveness of the internal audit unit;
 - the audit committee did not advise the municipality on issues of compliance with applicable legislation;
 - the audit committee did not advise the municipality on risk management ;
 - the audit committee did not review the quarterly reports of the internal auditors on their audits of the performance measurements of the municipality;
 - the audit committee did not review the municipality's performance management system and make recommendations in this regard to the council of the municipality;
 - The audit committee did not submit an auditor's report to the council regarding the performance management system at least twice during the financial year.

Internal audit

26. The internal audit unit did not function as required by section 165(2) of the MFMA, in that internal audit did not report to the audit committee on matters relating to internal audit, risk and risk management.
27. The internal auditors of the municipality did not audit the performance measurements on a continuous basis and did not submit quarterly reports on their audits to the municipal manager

and the performance audit committee as required by Municipal Planning and Performance Management Regulation 14.

Expenditure management

- 28. Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the MFMA.
- 29. The accounting officer did not take reasonable steps to prevent irregular, fruitless and wasteful expenditure, as required by section 62(1) (d) of the MFMA.

Revenue management

- 30. A credit control and debt collection policy was not implemented as required by section 96(b) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA) which resulted in a substantial amount of money being long outstanding as at 30 June 2011.

INTERNAL CONTROL

- 31. In accordance with the PAA and in terms of General Notice 1111 of 2010, issued in *Government Gazette 33872 of 15 December 2010*, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the basis for qualified opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

- 32. The accounting officer did not exercise oversight responsibility over financial and performance reporting as financial statements and the annual performance report were subject to material amendments and the controls over the overall process of planning and reporting on performance against predetermined objectives were inadequate.

Financial and performance management

- 33. The accounting officer did not implement proper record keeping and key reconciliations were not prepared and reviewed at least on a monthly basis, which also lead to suspense accounts being uncleared and the annual performance report was not in all cases supported by evidence.
- 34. The financial and performance reports were not accurate and complete and were subject to material amendments. This was due to misstatements that were identified and were not prevented or detected by the municipality's system of internal control due to inadequate review of reports by senior management prior to submission for auditing.
- 35. The accounting officer did not review and monitor compliance with all applicable laws and regulations, and non - compliance with laws and regulations could have been prevented had compliance been properly reviewed and monitored.

Governance

36. The accounting officer did not ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective actions effectively and timeously.
37. The accounting officer did not ensure that the audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and providing oversight over the effectiveness of the internal control environment including financial and performance reporting and compliance with laws and regulations.

Auditor-General

Johannesburg

30 November 2011



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence